

A Perfect Storm

Could water and infrastructure be the next wave of investing?



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As I sat down to write this article, I clicked on the evening news in the background. The lead story was an investigation into the recent massive water-main break on Sunset Boulevard near the UCLA campus that spilled more than 20 million gallons. This was quickly followed by an update on the ongoing statewide drought, a report on new wildfire outbreaks, and a feature on climate change. In essence, the broadcast encapsulated and coalesced all the ideas swirling in my head.

It's the essence of human existence – our most precious commodity. Yet from an investment perspective, rarely do we ever think about water. Ask the average investor, or even most investment professionals, to name traded commodities and they'll list oil and gas, gold and other precious metals. They might even mention pork bellies. But I'd hazard a guess that you'll never hear the word **water**.

The H2Opportunity

Those of us in developed nations have been conditioned to think of water as a limitless resource. Our state's ongoing drought concerns, however, should serve as an ever-present, close-to-home reminder of just how vital a commodity water is. And although we're cognizant that a large part of the third-world doesn't have efficient access to clean water, we tend to overlook the fact that accomplishing that goal will represent a massive economic undertaking.

By 2030, at current rates of growth, demand for water will likely exceed supplies by 40% and it's estimated that around 47% of the world's population will be living in areas deemed to be under "high water stress." The United Nations estimates that total annual spending on water infrastructure by developing countries will need to more than double, from a current \$75 billion to \$180 billion by 2030.¹ We've even seen the advent of an international Global Water Investment Summit.

Clearly, there is significant growth potential in this often overlooked sector, and ways to invest to become part of the solution. A number of mutual funds and ETFs seek to focus their investments on the water industry, tracking indexes such as the S&P Global Water Index. But it's not just the third-world where water investment opportunities exist.

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Our aging infrastructure

The pipe that burst on Sunset was 90 years old. It was an accident waiting to happen. The aging of much of our nation's infrastructure including pipelines, roads and bridges has been and continues to be a serious concern. Just in water infrastructure alone, the American Water Works Association estimates that the U.S. will need to invest nearly \$1 trillion over the next 25 years to replace aging or faulty pipes.²

On a global perspective, water infrastructure spending needs may approach \$11.7 trillion between 2013 and 2030, according to Janney Montgomery Scott.³ As is the case with water, there are ways to invest in water infrastructure – both domestically and internationally. In addition to stocks, mutual funds and ETFs, municipal bonds have the potential to deliver reasonable returns and tax advantages, while affording you the opportunity to invest back into our community.

While no one knows precisely what the future holds for any economies, markets or investments, it's hard to imagine the significance of water diminishing. It truly is THE most essential commodity on the planet. Take a few minutes to talk to your financial advisor about water investment opportunities. It may be a unique chance to do well while doing good.

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¹ Source: World Bank sponsored 2030 Water Resources Group report.

² American Water Works Association, "Buried No Longer: Confronting America's Water Infrastructure Challenge," February 2012

³ The Economist, "Infrastructure Financing: A Long & Winding Road," March 22, 2014

It is recommended that you speak with your Financial Advisor to determine if a particular strategy best meets your specific needs and objectives. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of security. You are encouraged to seek advice from your professional advisor. No investment strategy can guarantee a profit or protect against a loss. Please remember that all investments carry some level of risk, including the potential loss of principal invested.

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